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DEPT FOR SA/INS BRENNIG; PLEASE PASS TO USTR: A.WILLS,
J.ROSENBAUM, COMMERCE FOR A.BENAISSA

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SUBJECT: BRIEFING SRI LANKA'S "GOOD FRIEND" HIGH ON FINMIN
AMUNUGAMA'S AGENDA FOR USTR MEETING

REF: THOMPSON-AUSTR WILLS EMAIL 09/10/04

Classified By: AMBASSADOR JEFFREY J. LUNSTEAD. REASONS 1.4 D AND E

11. (C) SUMMARY: Finance Minister Sarath Amunugama reviewed for the Ambassador his recent discussions with OPEC and outlined his thoughts on the WB/IMF meetings in Washington in early October. He looks forward to meeting USTR Zoellick and seeks to assure USTR of the GSL's commitment to support the US in the WTO and to explain GSL desire to move forward on an FTA. Regarding the upcoming budget process, Amunugama wants to find ways to increase remuneration for government employees. The meeting closed with Amunugama expounding on one of his favorite topics, Sri Lanka's failure to embrace good policies, thus perpetuating the poverty cycle and leading to bloated, self-serving public institutions, the most troubled of which he has labeled publicly as "the five monsters." USTR should take the opportunity during meetings with Amunugama to outline our desires for next steps at the WTO and seek clarification on possible TIFA issues. Amunugama is aware that consideration of an FTA will have to wait until after November at the earliest, but reiteration of this point would be helpful. End Summary.

12. (U) During a September 21 call by the Ambassador, Finance Minister Sarath Amunugama reported on his recent trip to Geneva for discussions with OPEC, outlined tentative plans for his visit to Washington in October for the WB/IMF meetings (and, we understand, meetings with USTR Zoellick), and discussed some of the issues facing the GSL as it faces the prospect of passing a budget in early November.

OPEC: Prices Not Our Fault, Project Assistance Possible

13. (C) Amunugama said his meeting with OPEC in Geneva went as well as could be expected. It was a follow-on to meetings and discussions with Iran, Saudi Arabia, and Nigeria among other countries, about finding relief from elevated oil prices. OPEC representatives were cordial, but adamant that elevated oil prices should not be blamed on OPEC alone. OPEC has increased production and is trying to mitigate prices. While OPEC can provide assistance, it will not provide budgetary support for balance of payments problems. Nonetheless, it would consider project assistance from the OPEC fund, and Sri Lanka was exploring what kinds of assistance to request.

WB/IMF Meetings

14. (C) Regarding the WB and IMF meetings, Amunugama said he would try to raise their level of confidence in the GSL. There have been some discussions and Amunugama felt feedback had generally been positive. The IFIs remain concerned about the consistency and continuity of the GSL's economic policy, however. The GSL is hoping for some form of budgetary support, but recognizes that it may not be forthcoming in the near term. When the Ambassador broached the subject of the impending departure of IMF Rep Jeremy Carter (Note: reportedly at the GSL's request. End note.) Amunugama acknowledged that the GSL had requested someone with a "new point of view." While Amunugama recognized Carter had been disappointed, Carter nevertheless understood the value in someone new interacting with the new government.

The Budget

15. (SBU) Ambassador asked what the GSL's budget priorities would be. This gave Amunugama the opportunity to wax eloquent on several of his favorite ideas. He discussed the need to improve remuneration for the public service, but without busting the budget. He said the GSL is looking at programs to offer land and loans for up to 100,000 new houses for mid-career government officials. This would not only be an excellent benefit for the employees, but the related construction boom would benefit the economy overall. The GSL will also look to rationalize and take advantage of many scholarship and training opportunities for public servants that are currently going unused. Amunugama said he wanted to build long-term commitment by the employees to the public

sector, without resorting to a flat salary increase.

16. (SBU) On the country's macroeconomic fundamentals, the economy was doing well. The tea, rubber and tourism industries were all strong performers. Remittances continue to be high and exports were up. The increasing price of oil, and its related effects on foreign exchange markets and the balance of payments, were the main culprit in causing increased cost of living and poor business confidence.

17. (C) Regarding economic policy, Amunugama complained about Sri Lanka's history of poor economic decision making. Sri Lanka, he said, is not a "poor country." Rather, it is poor by choice, because of the policies it has adopted. Because of a failure to embrace modern education and international norms, it was fast becoming a nation of private security guards and garment workers. Amunugama pledged to continue to speak frankly about the problems the country is facing and reminded the Ambassador about his discussions of the "five monsters" (the five most bloated and inefficient state-run enterprises: the Board of Investment, the Petroleum Corporation, the Transport Board, the Electricity Board and the Railway).

Meeting with USTR Zoellick

18. (C) Regarding his meeting with USTR, Amunugama said he hoped to discuss the potential US-SL FTA and why it should "continue." Ambassador Zoellick had been a good friend to Sri Lanka and Amunugama wanted to assure him of continuity in GSL support for US positions in the WTO. The GSL takes its own positions based on its national interest and those interests coincide more with the US than with other developing countries.

Comment and Recommended Points for USTR Meetings

19. (C) The economy is hampered by the GSL's lack of decision making on important issues (power, roads and other infrastructure projects), a lack of clarity in the GSL's Economic Policy Framework, which is rather general and passes much of the heavy lifting in the economy off to the newly formed National Council for Economic Development (NCED) and Strategic Enterprise Management Agency (SEMA), and a general erosion of confidence as violence increases and the GSL and LTTE fail to make any progress towards returning to the peace table.

110. (C) Nonetheless, Amunugama is right that many underlying fundamentals remain solid and the opportunity for the economy to pick up with strong leadership and progress on the peace front remains. We will report more thoroughly on the current state of the economy, second quarter trends and economic leadership in Sri Lanka septel.

111. (C) For USTR Zoellick's meeting with Amunugama, we recommend that USTR make a strong pitch for progress and support for US positions in the next phases of WTO discussions and give Amunugama a reality check on the current possibilities for FTA progress, given upcoming US elections and continued uncertainty surrounding Sri Lanka's economy and political situation. It will also be a good opportunity to gauge senior GSL leadership's grasp of the TIFA process and potential agenda items (ref email).

LUNSTEAD